

Wanted, some taxpayer-friendly moves

DE-TAX. Here are steps government could effect in Interim Budget 2024 to ease compliance burden

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From the introduction of a new tax regime to the implementation of Tax Collection at Source (TCS) on diverse transactions, including the purchase of overseas tour packages, a lot of changes have happened on the income tax front for individual taxpayers, over the last few years.

Despite the government's pledge to facilitate compliance through pre-filled income tax returns, the anticipated relief is yet to materialise. Against this backdrop, individuals are looking to the upcoming Budget to bring clarity, simplification, and concessions.

STANDARD DEDUCTION FOR SALARIED INDIVIDUALS

Income derived from salary has consistently attracted high taxes due to the limited scope of deductions. The consolidation of various deductions into a single standard deduction was a welcome simplification. However, the annual deduction of ₹50,000 is deemed inadequate, especially for those working in metropolitan areas, where the cost of living is substantially higher.

There has been growing discontent with the limited standard deductions among individuals with income from salary. Addressing this concern in the upcoming Budget could significantly ease the tax burden on salaried individuals. It is expected that the standard deduction should be a percentage of income, with varying percentages based on the cost-of-living index in different cities. This approach aligns with the differentiated House Rent Allowance (HRA) deductions based on location and fosters a more equitable tax system.

DECLARATION OF TCS FOR REDUCED TDS

To monitor high-value transactions, TCS is currently levied on various purchases, including motor cars and overseas tour packages. However, there is a growing de-



mand among salaried individuals for their employers to consider TCS already deducted while computing Tax Deducted at Source (TDS). The absence of a provision in the income tax laws places an undue burden on employees who are left with excess refunds at the end of the financial year, creating cash constraints throughout the year.

Incorporating a mechanism in the Budget that allows employers to factor in TCS while computing TDS could be a pragmatic solution. This would not only streamline the taxation process but also align with the government's overarching goal of reducing compliance burdens on taxpayers.

DEDUCTIONS FOR HOUSE RENT AND INTEREST ON HOUSING LOAN

The existing formula for House Rent Allowance (HRA) deduction faces scrutiny, with anticipation surrounding the expansion of metro city definitions to include emerging urban hubs such as Bengaluru and Pune. Extending the definition of metro cities, currently limited to Delhi, Mumbai, Chennai, and Kolkata, could enable employees in these burgeoning hubs to avail higher HRA deductions, reflecting the increased cost of living.

For individuals living in self-occupied properties, the deduction of interest on housing loans is presently capped at ₹2 lakh per annum. This figure, amounting to ₹16,667 per month, falls short, particularly in cities with exorbitant property rates, such as Mumbai and Delhi. This limit not only

is active for the Finance Ministry to address this discrepancy in the upcoming Budget.

SIMPLIFYING TAX REGIME

Traditionally, individual tax computations have followed a progressive slab rate system, ensuring that tax collection is commensurate with taxable income. However, the introduction of the new tax regime, imposed by default, has presented challenges, particularly for salaried individuals. While the old system encouraged saving habits, the new structure appears to favour employees with lower earnings and fewer investments.

The new tax regime, while addressing potential tax fraud, brings to the forefront, the need to streamline verification processes for the income tax department, as well as simplify compliance for individual taxpayers. A balance must be struck between curbing tax evasion and ensuring that the tax system remains comprehensible and fair for the average taxpayer. This balancing act is crucial for fostering a tax environment that not only meets revenue targets but also fosters voluntary compliance.

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